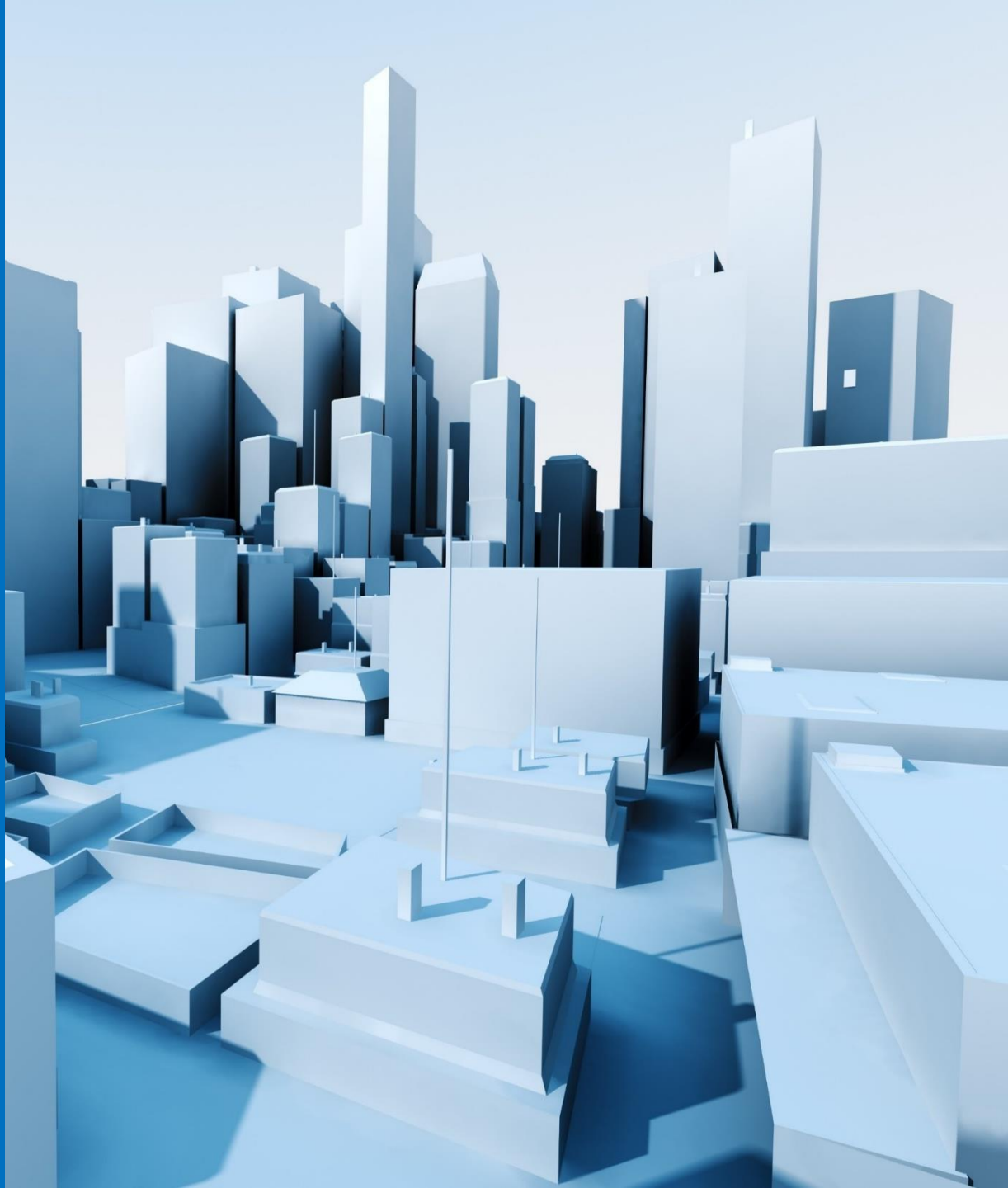




ISQC 1 – A focus on SMPs

The Audit Quality
Assurance Seminar
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Nairobi Safari Club,
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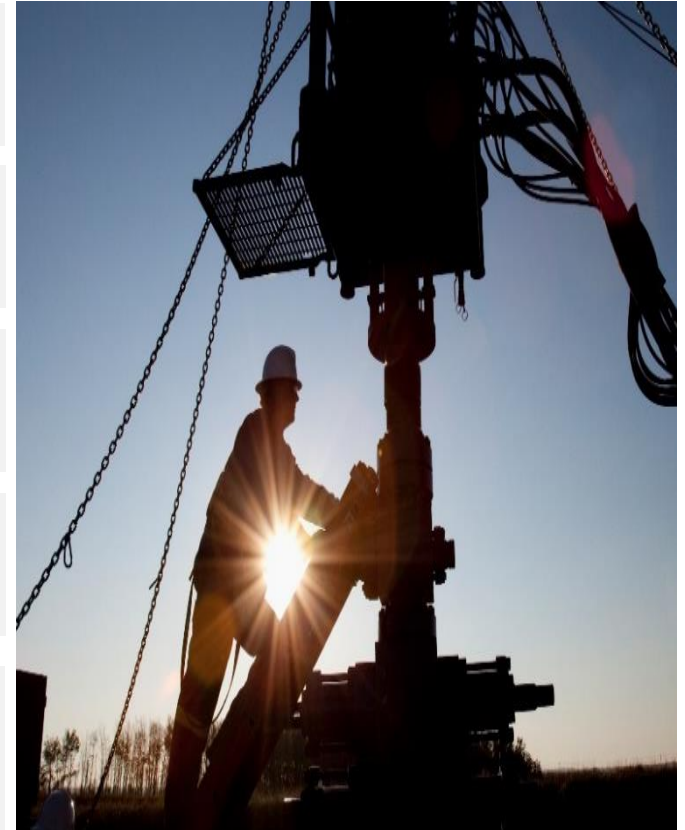
What is ISQC1

Elements of Quality Control

Developing and Implementing a Quality Assurance Policy

Documentation of the System of Quality Control

Challenges and Impediments of Implementing Quality Control, Solutions, and Benefits





What is ISQC 1

Delivering quality services and dealing with compliance issues are crucial features of the everyday running of a modern assurance/accountancy practice. It has always been important for firms to develop and implement good practices and procedures for quality control and to constantly monitor them to ensure that they are properly complied with and are regularly updated as and when required.

Revised International Standard on Quality Control 1 (ISQC 1) became effective on December 15, 2009. (Previously 15th June 2005)

Applicable for firms that perform audits and reviews of financial statements and other assurance and related service engagements.

Objective

To give a firm reasonable assurance that:

Firms and personnel comply with professional standards and applicable legal and regulatory requirements

Reports issued by the firm or engagement partners are appropriate in the circumstances.

(ISQC) deals with a firm's responsibilities for its system of quality control for audits and reviews of financial statements, and other assurance and related services engagements.

Applicable for firms that perform audits and reviews of financial statements and other assurance and related service engagements.

Objective

A system of quality control consists of policies designed to achieve the

Following objectives: To give a firm reasonable assurance that:

1. Firms and personnel comply with professional standards and applicable legal and regulatory requirements
2. Reports issued by the firm or engagement partners are appropriate in the circumstances.

Applying and complying with relevant requirements

All staff should have an understanding of QC policies

Firm should comply with the policies unless the requirement is not relevant to particular services.

Where policy is not relevant, a firm may consider establishing additional policies and procedures in addition to those required by ISQC 1

The nature and extent of the policies and procedures developed by an individual firm to comply ISQC will depend on various factors such as the **size** and **operating characteristics** of the firm, and whether it is **part of a network**.

Personnel within the firm are responsible for establishing and maintaining and applying the firm's system of quality control.

The firm has to comply with each requirement of ISQC unless, in the circumstances of the firm, the requirement is not relevant to the services provided - **Demonstration required of non-applicability**

1. Leadership responsibilities for quality within the firm.
2. Relevant ethical requirements.
3. Acceptance and continuance of client relationships and specific engagements.
4. Human resources.
5. Engagement performance.
6. Monitoring.

The firm shall document its policies and procedures and communicate them to the firm's personnel.

The firm shall establish policies and procedures designed to promote an internal culture recognizing that quality is essential in performing engagements.

Tone at the top

i. Promoting an internal culture of quality

- Clear, consistent and frequent actions from all levels of management
- Rewarding high quality work
- Communicating actions appropriately through training, internal documentation, briefing memoranda etc.

Leadership responsibilities for quality within the firm (continued)

Firms business strategy is subject to the overriding requirement for the firm to achieve quality in all engagements by:

- a. Establishing performance and reward based incentives.
- b. Assignment of management responsibilities so that commercial considerations do not override quality of work performed
- c. Provision of sufficient resources to support quality control
- ii. **Assigning operational responsibilities for the firms system of quality control to persons with:**
 - a. Appropriate experience
 - b. Ability to identify, understand and develop QC issues

The fundamental principals of professional ethics:

- Integrity;
- Objectivity;
- Professional competence and due care;
- Confidentiality;
- Professional behaviour; and
- Independence.

Firm should document safeguards to address threats to compliance with the fundamental principles.

Reinforcement of fundamental principles is by:

- Leadership of the firm
- Education & training
- Monitoring
- A process of dealing with non-compliance

“An ethical corporate culture is one in which the employees are empowered and expected to act in ethically responsible ways,
even when the law does not require it.”
(DesJardins 2009)

Integrity implies not merely honesty but also fair dealing and truthfulness.

Objectivity imposes an obligation on all professional accountants to be fair, intellectual, honest and free of conflict of interest, influence by others and bias.

Independence of mind that permits the provision of an opinion without being affected by influences that compromise professional judgement, allowing an individual to act with integrity, and exercise objectivity and professional scepticism.

Independence in appearance which involves the avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, would reasonably conclude that the firm's or a member of the engagement team's integrity, objectivity or professional scepticism have been compromised.

Self-review threat which occurs where any product or judgement of a previous assurance or a non-assurance engagement needs to be re-evaluated in reaching conclusions on the assurance engagement, or where a member of the engagement team was an employee in a position to exert significant influence on an engagement related matter or was a director or officer of the client.

Advocacy threat which occurs when a firm or a member of the engagement team promotes or may be perceived to promote the client's position or opinion to the point that objectivity may or perceived to be compromised. This may occur where the firm or member of the engagement team promotes the debt or equity securities of the client or acts as an advocate on behalf of the client in a litigation or dispute resolution with third parties.

Familiarity threat which occurs when, by virtue of a close relationship with the client, its directors, officers or employees, the firm or a member of the engagement team becomes too sympathetic to the client's interest. Such threats could occur where:

- An immediate family member of a person on the engagement team is an employee of the client with the ability to exert significant influence on an engagement related matter, or is a director or an officer of the assurance client.
- A former partner of the firm is an employee of the client with the ability to exert significant influence on an engagement related matter, or is a director or an officer of the assurance client.
- There is a long association of a senior member of the engagement team with the client.
- The firm or any member of the engagement team accepts a gift from the client, its directors, officers or employees whose value is significant.

Intimidation threat which occurs when a member of the engagement team may be deterred from acting objectively and exercising professional scepticism by threats, actual or perceived, from the directors, officers or employees of the client. Such threats could include:

- Threats over replacement over a disagreement with the application of an accounting principle.
- Pressures to reduce inappropriately the scope of work or the fees.

Professional competence is obtained through obtaining the necessary professional qualifications, practical experience and through continuous professional development which includes keeping abreast of developments in the accountancy profession.

Acceptance and continuance of client relationships and specific engagements

- Acceptance and continuance:
 - Competences
 - Resources
 - Ethical issues
 - Clients Integrity
- New client proposals
- Resignation of a client relationship

- Recruitment and retention
- Performance evaluation
- Capabilities
- Competence
- Career development
- Promotion
- Compensation and rewarding compliance
- Estimation of personnel needs

- Overview
 - Competence
 - ethical issues
- Role of the Engagement Partner
- Planning, supervision and review
- Consultation
- Differences of opinion
- Engagement quality control review (EQCR)

- Overview
- Monitoring program
- Inspection procedures
- Report on the results of monitoring
- Evaluating, communicating, and remedying deficiencies
- Complaints and allegations

- Overview
- Documentation of the firm's policies and procedures
- Documentation of the engagement
- Documentation of the engagement quality control review
- File access and retention

QC Policies link to Engagement Reviews

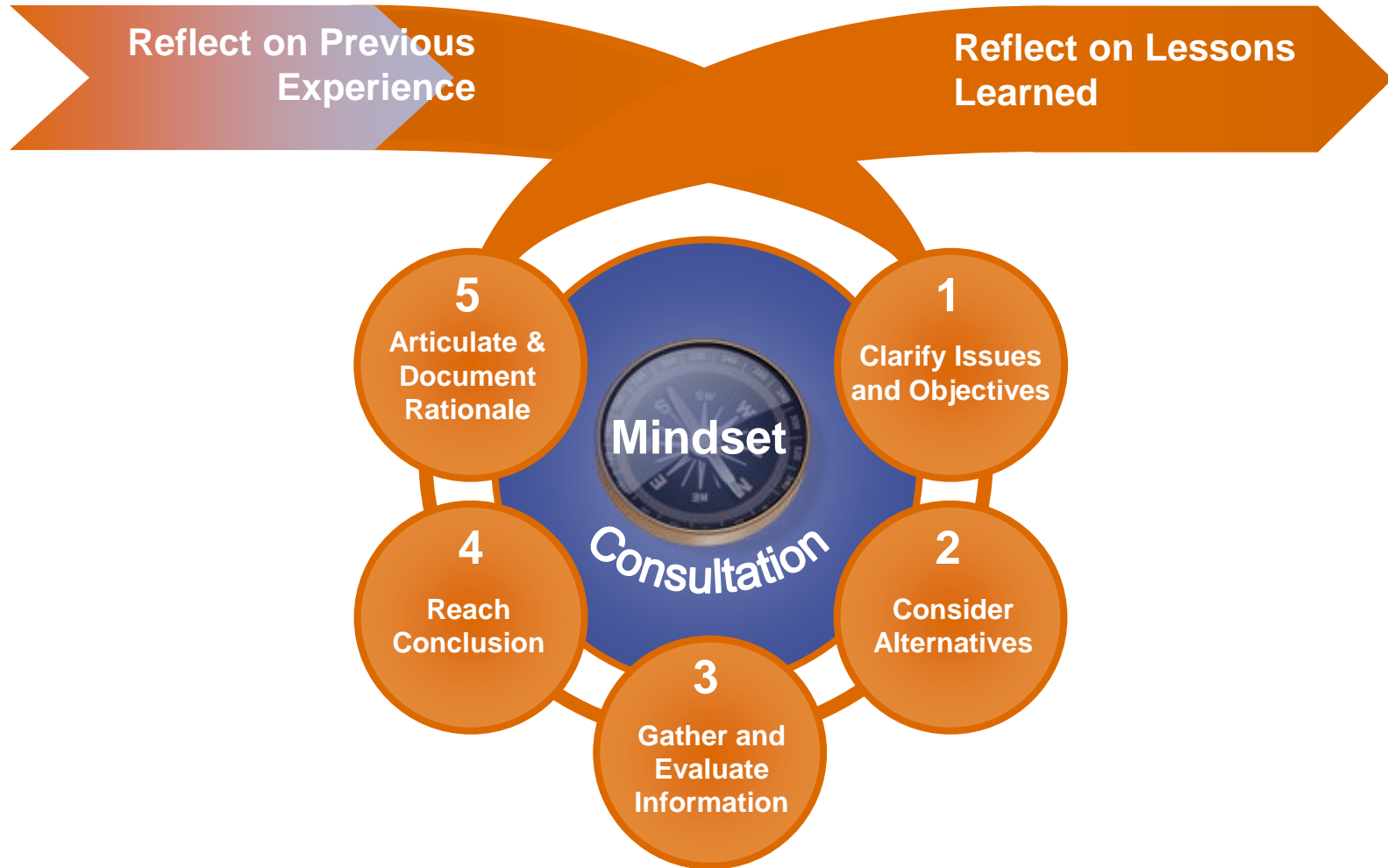
QC Policy	Engagement Review
Leadership responsibilities	<ul style="list-style-type: none">• Completion & review• Acceptance/ continuance of client relationship• Opinions• Quality control reviewer
Ethical requirements	<ul style="list-style-type: none">• Signing of annual and engagement independence and confidentiality forms

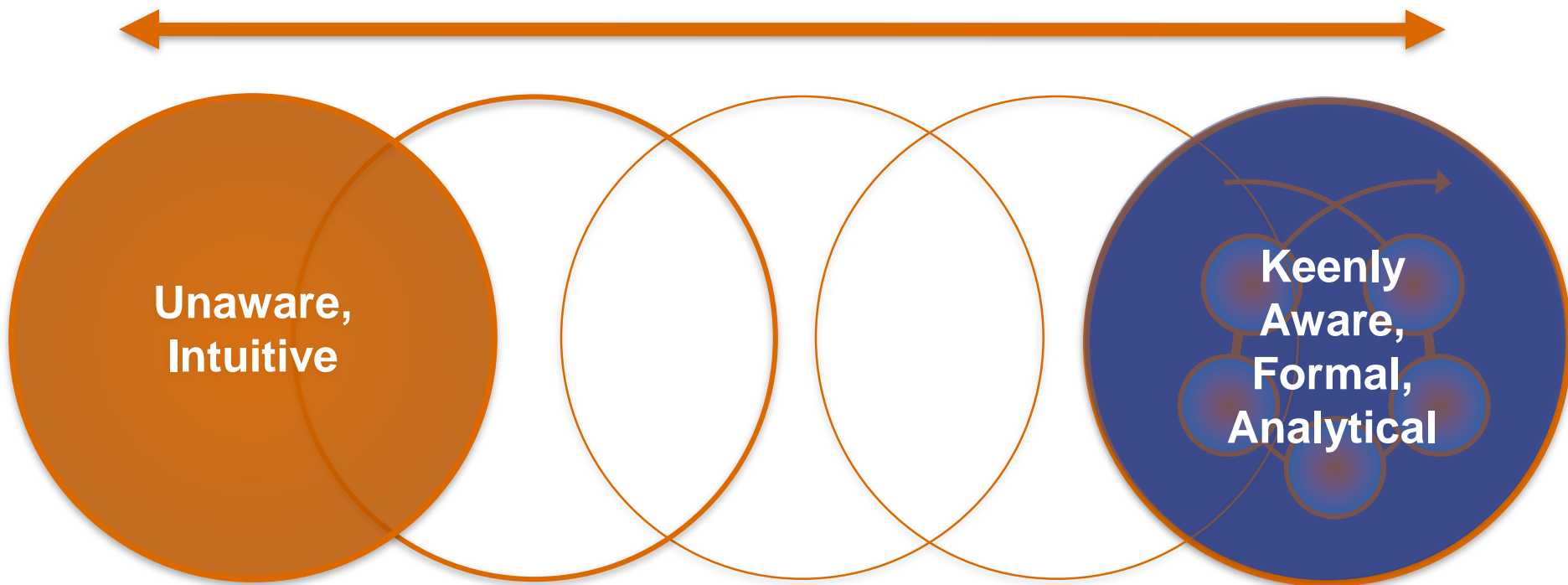
QC Policies link to Engagement Reviews (continued)

QC Policy	Engagement Review
Acceptance and continuance of client relationships	<ul style="list-style-type: none"> • Pre-engagement procedures
Human resource	<ul style="list-style-type: none"> • Assignment of engagement teams • Reporting
Engagement performance	<ul style="list-style-type: none"> • Team briefing • Documentation of work performed • Supervision • Consultations • EQR

QC Policies link to Engagement Reviews (continued)

QC Policy	Engagement Review
Monitoring	<ul style="list-style-type: none"> • Adherence to professional standards, legal and regulatory requirements. • Relevance of policies • Partners rotation
Documentation of the system of QC	<ul style="list-style-type: none"> • reporting framework





- Professional judgment and skepticism.
- Direction, supervision and review.
- Ongoing mentoring and on the job coaching.
- Critical assessment of audit evidence.
- Appropriately supported and documented conclusions.
- Relationships built on mutual respect.
- Insightful, open and honest two way communications.



“Quality in a service or product is not what you put into it. It is what the client or customer gets out of it.” ~Peter Drucker

“Quality is never an accident; it is always the result of high intention, sincere effort, intelligent direction and skillful execution; it represents the wise choice of many alternatives.” ~William A. Foster

**The man who has won
millions at the cost of his
conscience is a failure.**

BC Forbes





Thank you

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